

Message Text

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INFO OCT-01 ISO-00 SSO-00 NSCE-00 USIE-00 INRE-00 EURE-00

AGR-05 CEA-01 CIAE-00 COME-00 DODE-00 EB-07 FRB-03

H-02 INR-07 INT-05 L-03 LAB-04 NSAE-00 NSC-05 PA-01

AID-05 CIEP-01 SS-15 STR-04 TAR-01 TRSE-00 PRS-01

SP-02 FEAE-00 OMB-01 XMB-02 OPIC-03 OIC-02 NEA-10

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TO SECSTATE WASH DC IMMEDIATE 0437

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PASS AGRICULTURE FOR FRASER

E.O. 11652: N/A

TAGS: OECD, EAGR, ETRD

SUBJECT: OECD TRADE COMMITTEE: CONSIDERATION OF
AGRICULTURAL STUDY

1. DEPARTMENT WILL RECALL THAT THIS STUDY WAS INITIATED
BY THE UNITED STATES AT UNDER SECRETARY LEVEL AND XCSS'S
DECISION TO LAUNCH STUDY WAS ONLY ACHIEVED WITH CONSIDER
-ABLE EXPENDTIR EXPENDITURE OF POLITICAL CAPITAL.

2. WE HAVE EARLIER REPORTED THAT STUDY WOULD BE SUB-
MITTED TO AGRICULTURAL COMMITTEE, TRADE COMMITTEE, AND
DAC FOR COMMENTS BEFORE BEING TAKEN UP BY XCSS, POSSIBLY
AT ITS NEXT MEETING.

3. WE WOULD HOPE THAT CONSIDERING THE SIGNIFICANT EFFORT
MADE BY USG TO GET THIS STUDY STARTED, WE COULD USE SOME
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OF ITS FINDINGS AS A SPRINGBOARD FOR MAKING A FEW OF OUR

MAIN POLICY POINTS AS WELL AS POSSIBLY RECOMMENDING FURTHER STUDY WHICH WOULD LAY THE INTELLECTUAL GROUNDWORK FOR SUBSEQUENT POLICY DISCUSSIONS IN THE OECD AND OR ELSEWHERE.

4. WE DID NOT RECEIVE INSTRUCTIONS FROM WASHINGTON AS TO WHAT SHOULD BE SAID BY US REP TO AGRICULTURAL COMMITTEE ON THIS SUBJECT. A REPORT ON AGRICULTURAL COMMITTEE MEETING WILL FOLLOW IN SEPTEL.

5. TRADE COMMITTEE DELEGATION'S BRIEFING BOOK CONTAINS UNCLEAR PAPER OF COMMENTS ON AGRICULTURAL STUDY SUBMITTED BY USDA WHICH DO NO ADDRESS POLICY ISSUES.

6. MISSION WOULD APPRECIATE RECEIVING, IF AT ALL POSSIBLE, CLEARED INSTRUCTIONS BY TOMORROW A.M. AS TO WHAT U.S. REP CAN USEFULLY SAY IN COURSE OF TRADE COMMITTEE MEETING, WHICH WOULD HELP SET THE STAGE FOR DISCUSSION AT FORTHCOMING EXECUTIVE COMMITTEE MEETING.

7. WHAT FOLLOWS IS DRAFT STAGTEMENT PREPARED BY MISSION'S AGRICULTURAL ATTACHE FOCUSING ON POINTS MADE IN AGRICULTURAL COMMITTEE DISCUSSIONS WHICH MIGHT BE DRAWN UPON BY U.S. REP TO TRADE COMMITTEE IF WASHINGTON AGREES.

8. BEGIN TEXT: "WE FOLLOWED WITH KEEN INTEREST ONE PRINCIPAL THESIS PRESENTED IN THE STUDY. TO QUOTE FROM PARA 19 OF THE CONCLUSIONS: ""THE MARKET FOR THE MAIN AGRICULTURAL PRODUCTS IS LIKELY TO SUFFER FROM AN INCREASING MEASURE OF INSTABILITY OVER THE NEXT 10 TO L5 YEARS, CAUSING WIDE PRICE FLUCTUATIONS AND SPORADIC BUT FAR-REACHING CHANGES IN THE TRADE FLOWS.""

9. WE FEEL THAT THIS THESIS HAS BEEN DEVELOPED TO THE POINT WHERE IT CANNOT BE DISMISSED; BUT IT HAS NOT BEEN CONCLUSIVELY PROVED EITHER. WE INVITE ADDITIONAL RESEARCH ON THIS VERY POINT.

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10. HERE IN THE TRADE COMMITTEE WE ARE ESPECIALLY INTERESTED IN THE FORECAST OF A WORSENING OF VIOLENT FLUCTUATIONS IF THE DEGREE OF SELF-SUFFICIENCY IN MANY COUNTRIES WERE TO INCREASE. FROM AN INDIVIDUAL PRODUCT VIEWPOINT IT SEEMS ATTRACTIVE, INDEED, TO LET DOMESTIC PRODUCERS SUPPLY A LARGER PROPORTION OF MARKET REQUIREMENTS AND TO SAVE FOREIGN EXCHANGE BY IMPORTING LESS, REGARDLESS OF COST. HOWEVER, WHAT DO SUCH SELF-SUFFICIENCY POLICIES MEAN TO GOVERNMENTS DEVOTED TO PROMOTING ECONOMIC GROWTH, IN TERMS OF LOST EXPORTS, LOST OPPORTUNITIES TO SATISFY NEEDS AT LEAST COST AND LOWER LIVING STANDARDS?

11. ALTHOUGH THE STUDY MENTIONS THE HIGH COST OF INCREASING AGRICULTURAL PRODUCTION IN THE OECD AREA, WE FEAR NEVERTHELESS, THAT IT EXAGGERATES THE AMOUNT OF RESERVES IN CULTIVABLE LAND SAID TO EXIST IN PARALIMITED OFFICIAL USE

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GRAPH 2 OF THE CONCLUSIONS AND DO NOT FIND A SUFFICIENT DEGREE OF DIFFERENTIATION BETWEEN THE LOWER MARGINAL

COST OF GRAIN PRODUCTION IN NORTH AMERICA AND THE HIGHER MARGINAL COST OF SUCH PRODUCTION IN WESTERN EUROPE.

12. ANOTHER NECESSARY DIFFERENTIATION NOT SUFFICIENTLY DEVELOPED IS THAT BETWEEN THE RELATIVE EASE OF EXPANDING AGRICULTURAL PRODUCTION AND THE RELATIVE DIFFICULTY OF CONTRACTING OR REDUCING IT. WE READ IN PARAGRAPH 4 OF THE CONCLUSIONS IN THE CONTEXT OF A DISCUSSION OF CHANGES IN PRICE RATIOS BETWEEN FARM PRODUCTS AND PRODUCTION INPUTS THAT "DESPITE POSSIBLE SHORT-TERM DIFFICULTIES IT MAY BE ASSUMED THAT IN THE LONGER RUN THE NECESSARY ADJUSTMENTS WILL BE MADE, AND AGRICULTURAL PRODUCTION IN THE OECD AREA WILL RESPOND TO DEMAND, THANKS TO MARKET SIGNALS OR STATE INTERVENTION. THIS CITATION, IN ITS CONTEXT, IS EXPANSION-ORIENTED. SINCE STATE INTERVENTION, BY ITS VERY NATURE, INTERFERES WITH OR AT LEAST MITIGATES, PAINFUL MARKET SIGNALS IN THE DIRECTION OF DOWNWARD ADJUSTMENTS, WE WONDER WHETHER THE POSSIBILITY OF SURPLUSES AND INSUFFICIENT PRICES DURING EXTENSIVE PERIODS OF THE NEXT 10 OR 15 YEARS HAS BEEN FULLY FACED IN THE REPORT DESPITE ALL THAT HAS BEEN WRITTEN ABOUT THE EFFECTS OF INCREASING INSTABILITY.

13. THIS BRINGS ME TO MY OTHER POINT: WE AGREE WITH THE PORTRAYAL OF THE SERIOUSNESS OF THE FOOD OUTLOOK IN LDC'S. WE AGREE WITH THE CAREFUL ANALYSIS, IN CHAPTER II AND IN THE REGIONAL CHAPTERS, OF THE NEED TO MAKE THESE COUNTRIES MORE PRODUCTIVE, AND WE ALSO AGREE WITH THE POINT MADE IN PARAGRAPHS 6-9 OF THE CONCLUSIONS THAT MANY LDC'S MAY NOT BE ABLE SIMULTANEOUSLY TO RAISE THEIR PRODUCTIVITY AS NECESSARY IN THE LONG RUN AND TO BUY ALL THEIR FOOD REQUIREMENTS BY COMMERCIAL IMPORTS, IN THE PRESENT AND IN THE IMMEDIATE FUTURE. THIS OUTLOOK CALLS FOR THE CONTINUATION OF FOOD AID PROGRAMS CERTAINLY TO THE END OF THE PERIOD NOW UNDER DISCUSSION. AND CONTINUED FOOD AID, IN TURN, MUST BE ORGANIZED WITH THE AIM OF PREVENTING ANY NEGATIVE EFFECT ON THE FARM SECTOR IN BENEFICIARY COUNTRIES. ALTHOUGH THE MEANS EXIST TO INSULATE FARMERS IN LDC'S LIMITED OFFICIAL USE

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FROM THE POTENTIAL PRODUCTION DISINCENTIVE EFFECT OF FOOD AID, PAST EXPERIENCE IN THIS RESPECT HAS NOT YET BEEN FULLY REFLECTED IN ALL FOOD AID PROGRAMS.

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14. WE ARE DISTURBED THAT THE DISCUSSION OF THE REPORT
IN THE COMMITTEE FOR AGRICULTURE LAST WEEK
WAS IN PART CHARACTERIZED BY A NOTICEABLE TIREDNESS TO
FACE FOOD AID REQUIREMENTS. IN THIS CONNECTION, I SHOULD
LIKE TO RESTATE THAT IT IS NOW OUR POLICY IN THE UNITED
STATES TO TELL OUR FARMERS BEFORE PLANTING TIME WHAT
TONNAGES OF CEREALS WE PLAN TO PROGRAM FOR FOOD AID
DURING THE ENSUING MARKETING YEAR. WHILE THE VAGARIES OF
WEATHER REMAIN, WE WISH TO EXERCISE A STABILIZING INFLU-
ENCE ON WORLD MARKETS BY INDUCING OUR INDEPENDENT FARMERS
TO PRODUCE CROPS WHICH THEY CAN SELL AT REMUNERATIVE
PRICES.

15. DESPITE SOME CRITICISM WE THINK THE STUDY IS OF
HIGH CALIBRE AND SHOULD BE PUBLISHED AS SOON AS POSSIBLE.

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16. HOWEVER, IN LIGHT OF THE LIMITATIONS UNDER WHICH THE STUDY WAS CONDUCTED AND IN LIGHT OF RECENT DEVELOPMENTS IN THE USSR AND CHINA, WHICH HAVE CAUSED THE STUDY TO BE OUTDATED ALREADY, WE URGE THAT THE NECESSARY FOLLOWUP AND UPDATING RESEARCH BE PERFORMED WITHOUT DELAY, PARTICULARLY - --.-CONCERNING "AN ANALYSIS OF THE ACTION CALLED FOR BY THE EXPECTED DEVELOPMENTS" AS MENTIONED IN PARA 12 OF THE INTRODUCTION."
END TEXT.

17. US DEL TO TRADE COMMITTEE APPROVES OF THIS TEL.

18. ACTION REQUESTED: APPROVAL OF PROPOSAL WITH OR WITHOUT MODIFICATION BY 0900 TOMORROW PARIS TIME.
TURNER

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